SASKATCHEWAN MINERALS

1986 ANNUAL REPORT

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ANNUAL REPORT

of

SASKATCHEWAN MINERALS

OF THE

PROVINCE OF SASKATCHEWAN

for the

Year Ending December 31, 1986

Saskatchewan Minerals

P.O. Box 120
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25 March 1987

To His Honour
The Honourable Frederick W. Johnson
Lieutenant Governor of the
Province of Saskatchewan

Dear Sir:

I have the honour to submit herewith the Annual Report of Saskatchewan Minerals for the year ending December 31, 1986 including the financial statements therefore, duly certified by the Corporation's auditors and in the form approved by the Treasury Board, all in accordance with The Crown Corporations Act, 1978.

I have the honour to be, Sir,

Your obedient servant,

P A Smith

Patricia Smith
Minister Responsible
Chairman of the Board
Saskatchewan Minerals

BOARD OF DIRECTORS

Honorable Patricia Smith
Chairman of the Board
Regina, Saskatchewan

Ian Disbery
Corporate Secretary
Crown Investment Board
Regina, Saskatchewan

Robert Berry
Central Butte, Saskatchewan

Richard Gleim
Chaplin, Saskatchewan

Martin Chabot
Zenon Park, Saskatchewan

Marlin Materi
Fox Valley, Saskatchewan

CORPORATE MANAGEMENT

J. C. Mills	-	General Manager
L. A. Mason	-	Director of Finance & Administration
T. D. Lavineway	-	Director of Marketing
G. M. Krantz	-	Director of Operations
G. F. Miller	-	Director of Research & Engineering

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ANNUAL REPORT
1986

Saskatchewan Minerals has experienced another year of weak market conditions and the costs of production remained similar to the level in 1985 which resulted in lower net earnings. Gross revenues for the year reduced by $499,448 (2.5%), while total expenses reduced only $28,507 (.0015%) leaving net earnings of $945,827, which is $470,941 (33%) lower than the 1985 earnings.

Marketing and Sales

Sodium sulphate sales decreased during the year resulting in a drop in tonnage and revenue of 11% compared to 1985.

Sales in Canada declined 12% overall with the majority of the loss reflected in sales to the pulp and paper industry. Several pulp mills have switched to emulsified sulphur and caustic soda to replace saltcake, while others are now utilizing spent vanolin black liquor. Overall consumption of sodium sulphate in Canada remained fairly constant with the decrease in use in the pulp and paper industry balanced by a larger demand for detergent grade sodium sulphate. Sales to the United States declined 6% overall with the majority of the loss reflected in sales to the pulp and paper industry. Again, pulp mills continued to use alternative products to displace saltcake.

Throughout 1986, consumption of sodium sulphate in the U.S. detergent industry decreased slightly. The U.S. detergent industry has been reformulating some powder detergents which may lead to further reductions in the amount of sodium sulphate consumed. Also

liquid detergents are becoming more popular in certain areas and will claim approximately 32% of the total detergent market by year end.

Furthermore, as the American economy was fairly healthy in 1986, by-product producers had record levels of by-product sodium sulphate production available in an already depressed market. This over-supply situation will carry on into 1987.

During 1986, Saskatchewan Minerals' sales to the major industrial segments varied. Sales to the pulp and paper industry were down 44%, and to the glass industry, down 6.5%. We were able to regain some of our market share of the detergent industry and these sales increased by 9% over the 1985 level.

Freight rates were increased in Canada by 4% but rates in the United States were only increased 1.1% on January 1, 1986. This increase in the United States was dropped later in the year and replaced with a general increase of 3% or 6%, (depending on the area in the U.S.A.) effective October 31, 1986.

Deregulation of the railways in the United States has helped to sell in many areas, but, competition has also been increased. Similarly, deregulation in Canada may become a reality in 1987 when Bill C-18 is passed, and this should create further marketing possibilities for Saskatchewan Minerals.

1987 will see a further decline in sales, as there will continue to be an oversupply of both natural and by-product sodium sulphate throughout the United States and Canada.

Production

The Sybouts plant remained closed during the year due to continuing depressed market conditions.

The Bishopric plant was taken out of service in 1983 as a result of lower sales levels but the harvesting operations continued for the next two years, however quantities recoverable were low and of poor grade. In order to produce an acceptable product, extensive equipment changes would be required, and therefore this plant was considered uneconomic. The decision was made in early 1986 to remove all usable assets to the other plants and then on completion of the demolition of the remaining buildings and equipment, we could return the area as near as possible to its original condition. The objective was to reduce expenditures to zero at this site.

Production at the Chaplin plant was down 32.5% from 1985 levels due to a further tightening of the markets. Raw material at the plant was of excellent grade and brining operations during the summer produced an average harvest. Some detergent grade material was produced at the Chaplin plant during 1986.

Yearly production at the Ingebrigt plant was up 14.5% from the 1985 levels due to improved market share of detergent sales in both Canada and the U.S.A. As with the Chaplin plant the daily average production was increased as a result of better operating techniques.

During the warm summer months brine from the dredge was clarified and sent to the reservoir. This resulted in an increase

in the volume and quality of the brine available. A very good harvest resulted.

There are adequate supplies of raw material at both plant sites.

Peat Moss Division

A considerable improvement in this Division, over the previous year, was a result of increased sales and revenue. Sales were up 52% and the average selling price per bale was up 3%. Unit costs reduced as a result of less costly raw material and a larger volume of production. Weather conditions for the harvesting of raw material were ideal, and we obtained a record harvest. Further clearing of the bog along with more bog road mileage will assist in future harvests. A good carryover of moss harvested in 1985 will produce adequate supplies for expected sales.

A continued increase in sales and revenues are forecast for 1987.

Engineering & Research

The dehydration plant at Ingebrigt remains unchanged due to economic considerations in the selection of efficient dehydration equipment. A decision was made during 1986 to develop a small scale model of prototype design, that could be used for heat recovery in conjunction with our existing dehydration equipment. The thermodynamic balances and fabrication details have been finalized. It is expected that construction and testing of the model will proceed during 1987.

A significant increase in reservoir brine Glauber's salt at Ingebrigt was realized during the 1986 pumping season as compared to that obtained in 1985. This was accomplished through improved techniques in the operation of our dredge and supporting equipment.

A very high quality detergent grade sodium sulphate was produced at Chaplin during 1986 in a desirable cost effective manner. This will add greatly to our stature in the competitive market place that exists today.

Some basic research was conducted in an effort to develop new uses as well as new products, both for sodium sulphate and for peat moss.

Personnel

As a result of higher production levels in our peat moss the number of employees increased but was partially offset by staff reductions in the Sodium Sulphate Division through attrition and layoffs.

A revised three-year agreement to expire April 30, 1989 was signed in 1986 with the employees of the Sodium Sulphate Division who are represented by Local 678 of the Energy & Chemical Workers Union.

The employees of the Peat Moss Division who are represented by Local 1-184 of the International Woodworkers of America were in the final year of a two-year agreement which expires May 31, 1987.

Training of employees this year consisted of four completing

a Basic Industrial Safety Course, three completing a Cardio-Pulmonary Resusitation Course and one employee was granted education leave to further his education.

We are now in the fifth year of the Safety Program for the Sodium Sulphate Division and the second year of a formal safety program for the Peat Moss Division. The lost time accident frequency increased slightly in 1986 to 56 from 42 in 1985 but is still considerable less than the 115 frequency of 1982 when the program was started. Our efforts will continue to provide a safe working environment for safety minded employees.

General Statistics

Saskatchewan Minerals has made the following direct contribution to the Saskatchewan economy:

	During 1986	Since Inception
Salaries and Wages	$ 5,716,993	$61,831,403
Grants in Lieu of Taxes	$ 205,943	$ 2,184,003
Royalties	$ 704,808	$12,057,802
Dividends declared and/or paid to Crown Investment Corporation	$ 472,913	$40,503,819

On behalf of Corporate Management, I wish to express our sincere appreciation to all our customers for their business, to our suppliers for their service, and our employees for their dedicated efforts throughout 1986.

J. C. Mills
General Manager

Burroughs, Weber & Partners

Chartered Accountants

R.J. Weber, B. Comm., F.C.A.
E.G. Gross, C.A.
A.E. Downs, B. Comm., C.A.
E.K. Heppner, C.A.
A.E. Lightfoot, B. Comm., C.A.
R.B. Kane, B. Comm., C.A.
G.K. Braaten, B. Comm., C.A.

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AUDITOR'S REPORT

To the Members of the Legislative Assembly
Of the Province of Saskatchewan

We have examined the Statement of Financial Position of Saskatchewan Minerals as at December 31, 1986 and the Statements of Income and Retained Earnings and Changes in Cash Resources for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Burroughs, Weber, & Partners
Chartered Accountants

February 18, 1987

SASKATCHEWAN MINERALS

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	1986	1985
ASSETS		
CURRENT ASSETS		
Cash	$ -	$ 1,020,624
Accounts receivable	2,899,475	2,569,538
Inventories [Note 3]	4,202,963	3,433,201
Prepaid expenses	14,106	22,602
	7,116,544	7,045,965
PROPERTY, PLANT AND EQUIPMENT [Note 4]	13,203,633	14,226,415
DEFERRED CHARGES, NET OF AMORTIZATION	44,156	122,067
	$20,364,333	$21,394,447
LIABILITIES AND PROVINCE'S EQUITY		
CURRENT LIABILITIES		
Bank overdraft	$ 252,318	$ -
Accounts payable and accrued liabilities	1,536,423	1,574,682
Due to Crown Investments Corporation [Note 5]	722,913	1,900,000
Current portion of long-term debt [Note 6]	5,000,000	540,000
	7,511,654	4,014,682
LONG-TERM DEBT [Note 6]	3,000,000	8,000,000
PROVINCE OF SASKATCHEWAN'S EQUITY		
Advances [Note 7]	3,400,000	3,400,000
Retained earnings	6,452,679	5,979,765
	9,852,679	9,379,765
	$20,364,333	$21,394,447

SASKATCHEWAN MINERALS

STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31

	1986	1985
REVENUE		
Sales of product	$19,782,183	$20,081,860
Other [Note 8]	19,631	219,402
	19,801,814	20,301,262
EXPENSES		
Operating costs, other than those shown below	13,743,978	13,808,986
Selling and administrative	2,763,998	2,592,166
Depreciation and amortization	1,296,651	1,301,015
Interest [Note 9]	1,051,360	1,182,327
	18,855,987	18,884,494
NET EARNINGS	945,827	1,416,768
RETAINED EARNINGS, BEGINNING OF YEAR	5,979,765	4,562,997
	6,925,592	5,979,765
DIVIDENDS TO CROWN INVESTMENTS CORPORATION	472,913	-
RETAINED EARNINGS, END OF YEAR	$ 6,452,679	$ 5,979,765

SASKATCHEWAN MINERALS

STATEMENT OF CHANGES IN CASH RESOURCES

FOR THE YEAR ENDED DECEMBER 31

	1986	1985
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net earnings	$ 945,827	$ 1,416,768
Charges (credits) to operations not involving cash		
Depreciation	1,353,457	1,331,375
Amortization of deferred charges	77,911	149,544
(Gain) loss on sale of fixed assets	65,977	(112,631)
	2,443,172	2,785,056
Net change in non-cash working capital balances related to operations	(1,129,462)	341,780
Cash provided by operating activities	1,313,710	3,126,836
CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES		
Purchase of property, plant and equipment	(462,266)	(1,338,050)
Proceeds from disposal of property, plant and equipment	65,614	271,100
Cash used in investment activities	(396,652)	(1,066,950)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Repayment of long-term debt	(540,000)	(540,000)
Payment of dividends	-	(1,565,807)
Loans from Crown Investments Corporation	250,000	1,900,000
Repayment of loans from Crown Investments Corporation	(1,900,000)	(1,500,000)
Cash used in financing activities	(2,190,000)	(1,705,807)
INCREASE (DECREASE) IN CASH DURING THE YEAR	(1,272,942)	354,079
CASH POSITION AT BEGINNING OF YEAR	1,020,624	666,545
CASH POSITION AT END OF YEAR	$ (252,318)	$ 1,020,624

SASKATCHEWAN MINERALS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1986

1. SUMMARY OF ACCOUNTING POLICIES

The following summary of significant accounting policies contains a description of the accounting methods and practices that have an important impact on the corporation's financial statements.

- INVENTORIES

Finished product and raw material inventory are valued at the lower of average cost for the year and net realizable value. Inventories of materials and supplies are valued at the lower of cost and replacement cost.

- DEFERRED CHARGES

These items represent:

a) pre-operating and pre-aquisition costs incurred at the Sybouts Plant prior to start up which will be charged to operations during 1987; and

b) loan charges which will be amortized over the term of the loans.

- PROPERTY, PLANT AND EQUIPMENT

The costs of maintenance, repairs and minor renewal or replacements are charged to operations as they arise. The costs of major replacements, extensions and improvements are capitalized in the property, plant and equipment accounts. On retirement or disposal of property, plant and equipment, the costs thereof and the related accumulated depreciation are eliminated from the accounts and any gains or losses are reflected in the statement of operations.

- DEPRECIATION AND AMORTIZATION

Property, plant and equipment are recorded at cost.

Depreciation is designed to amortize the fixed assets over their estimated useful lives on a straight line basis over the following periods:

Buildings	10 to 30 years
Machinery and equipment	10 to 20 years
Office and safety equipment	5 years
Ditch lines, reservoirs, pipelines, spur tracks and platforms	10 to 20 years
Trucks	5 years

Bog development, mining lease improvements costs, and sodium sulphate deposits at the Sybouts Plant are amortized on the unit of production method over the estimated useful productive life of the asset.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

- FOREIGN EXCHANGE TRANSLATION

Foreign currency transactions are translated to Canadian dollars at the exchange rate in effect for that day.

Foreign currency monetary items are translated to Canadian dollars at the exchange rate in effect at the year end.

2. STATUS OF SASKATCHEWAN MINERALS

Saskatchewan Minerals was established by Order-in-Council 724 in 1945 with numerous amendments subsequent to that date. The corporation continues under the provisions of The Crown Corporations Act, 1978. The accounts of the corporation are consolidated in the annual financial statements of Crown Investments Corporation of Saskatchewan.

3. INVENTORIES

The inventories of the corporation are comprised of:

	1986	1985
Finished product	$ 1,450,100	$ 1,162,527
Raw material	2,066,985	1,582,405
Material and supplies	685,878	688,269
	$ 4,202,963	$ 3,433,201

4. PROPERTY, PLANT AND EQUIPMENT

	- 1 9 8 6 -			1985
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	$ 29,325	$ -	$ 29,325	$ 29,325
Buildings	5,727,383	2,643,851	3,083,532	3,274,603
Machinery and equipment	18,029,966	9,199,473	8,830,493	9,609,816
Ditch lines, reservoirs, pipelines, spur tracks, bog development, platforms and other	2,157,808	897,525	1,260,283	1,312,671
	$25,944,482	$12,740,849	$13,203,633	$14,226,415

5. DUE TO CROWN INVESTMENTS CORPORATION

	1986	1985
Dividend payable	$ 472,913	$ -
Loan	250,000	1,900,000
	$ 722,913	$ 1,900,000

6. LONG-TERM DEBT

	1986	1985
Crown Investments Corporation loan #1	$ 3,000,000	$ 3,000,000
#2	5,000,000	5,000,000
#3	-	540,000
	8,000,000	8,540,000
Less amount due within one year	5,000,000	540,000
	$ 3,000,000	$ 8,000,000

The Crown Investments Corporation loan #1 is due December 21, 1988 with interest payable semi-annually at 10 3/4% per year.

The Crown Investments Corporation loan #2 is due December 29, 1987 with interest payable semi-annually at 11 3/4% per year.

7. ADVANCES FROM CROWN INVESTMENTS CORPORATION

These advances represent the net capital contributions by Crown Investments Corporation of Saskatchewan to the Corporation since its inception. These advances are repayable at the discretion of Crown Investments Corporation of Saskatchewan and do not bear interest.

8. OTHER REVENUES

Included as a reduction in other revenue is a loss on sale of fixed assets in the amount of $65,977 (gain of $112,631 - 1985).

9. INTEREST EXPENSE

	1986	1985
Long-term	$ 1,036,888	$ 1,169,539
Bank charges and demand loan	14,472	12,788
	$ 1,051,360	$ 1,182,327

10. DIRECTORS AND SENIOR OFFICERS

The corporation's five directors received from Saskatchewan Minerals, in aggregate, $1,150 during 1986 (six directors 1985 - $4,350).

The five senior officers received, in aggregate, $313,107 in salaries for 1986 (five officers 1985 - $295,320).

11. RELATED PARTY TRANSACTIONS

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the corporation is related.

Account balances resulting from these transactions are included in the balance sheet and are settled on normal trade terms.

Other amounts due to and from related parties and the terms of settlement are described separately in the financial statements and the notes thereto.

12. CONTINGENCIES

The corporation is the defendant to one unresolved statement of claim. Management is of the opinion, as confirmed by legal counsel, that the claim can be successfully defended and accordingly no provisions have been made in the accounts. Any costs incurred will be accounted for in the period in which the claims are resolved.